

BILL # HB 2314

SPONSOR: Driggs

PREPARED BY: Hans Olofsson

TITLE: property valuation; telecommunications companies

STATUS: As Amended by House WM

FISCAL ANALYSIS

Description

Beginning in valuation year 2009, this bill would change the statutory valuation method that the Department of Revenue (DOR) uses for the valuation of telecommunications companies. The bill would maintain the current minimum value of buildings to 20% of original cost. However, the minimum value of personal property, such as cable and telecommunications equipment, would be reduced from 20% to 10% of cost.

HB 2314 would also require DOR to compute the depreciation of telecommunications property on a straight line basis. Currently, DOR uses depreciation schedules adopted by the department in 1993.

Estimated Impact

Based on estimates provided by the Department of Revenue (DOR), the bill could have a General Fund cost of \$4.3 million beginning in FY 2011. The reduction in net assessed valuation (NAV) under the bill would have a direct impact on the General Fund by increasing the cost for K-12 funding under the Basic State Aid formula. However, depending on the decision of the Legislature, this cost increase could be mitigated as a result of the automatic tax rate adjustments allowed under the state's truth-in-taxation (TNT) provisions for equalization assistance to schools. If the Legislature decides to allow the TNT adjustment to automatically take effect, the net General Fund cost would be reduced to an estimated \$0.8 million beginning in FY 2011.

Analysis

Compared to current law, DOR expects that HB 2314 will reduce the NAV of telecommunications property by about \$(140) million beginning in tax year 2010 (FY 2011 for budgetary purposes).

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (40% in FY 2011) of residential property taxes through the Department of Education's Homeowner's Rebate program. By reducing NAV by \$(140) million in tax year 2010, the bill will result in a direct increase of the state share of K-12 funding by \$4.3 million in FY 2011. This estimate includes the net impact of both Basic State Aid and the Homeowner's Rebate.

The NAV reductions under HB 2314 will also have an impact on the state's Truth in Taxation (TNT) program. Under TNT, both the QTR and state equalization tax rate are adjusted each year to offset the statewide annual valuation change of existing property. This rate change occurs automatically unless the Legislature decides to forego the TNT adjustment. Depending on the direction of the rate change, the TNT program can either produce a savings or a cost to the state General Fund. Since property values are expected to decline in FY 2011, TNT would result in an increase in property tax rates to offset the property valuation loss. If the Legislature allows the TNT adjustment to take effect in FY 2011 (in the form of higher rates), it is estimated that the net cost of the bill would be reduced from \$4.3 million to \$0.8 million in FY 2011. The higher cost due to the NAV loss will not be fully offset by the higher tax rates under TNT since those rate increases will also raise the cost of the Homeowner's Rebate program.

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As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund will be \$4.3 million in FY 2011. If the QTR is adjusted to account for TNT, however, the bill would have a General Fund cost of \$0.8 million in FY 2011.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

2/2/09